

**Compugates Holdings Berhad**  
(Company No. 669287 - H)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2007**

**PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (“FRS”) 134**

**1. Basis of Preparation**

The interim financial report is unaudited and has been prepared in compliance with FRS 134 - Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2006. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2006.

The accounting policies and methods of computation adopted in this quarterly financial statements of the Group are consistent with those adopted for the annual financial statements of the Group for the financial year ended 31 December 2006.

**2. Changes in Accounting Policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2006.

The following Financial Reporting Standards (“FRS”) have been issued and are effective for financial periods beginning on or after 1 October 2006 and will be effective for the Group’s financial statements for the financial period commencing 1 January 2007:-

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group anticipates that the adoption of FRS 124 will not have material effects to the Group and relevant disclosures have been made in Note 12 on significant related party transactions. FRS 117 is not applicable as it is not relevant to the Group.

FRS 6 - Exploration for and Evaluation of Mineral Resources has been issued and is effective for financial periods beginning on or after 1 January 2007. This standard is not relevant to the Group’s operations.

FRS 139 - Financial Instruments: Recognition and Measurement has been issued and the effective date has yet to be determined by Malaysia Accounting Standards Board. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group will apply this standard when it becomes effective

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**3. Status of Audit Qualifications**

The auditors' report on the financial statements for the financial year ended 31 December 2006 was not subject to any qualification.

**4. Nature and Amount of Exceptional and Extraordinary Items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the quarter ended 30 June 2007.

**5. Seasonal or Cyclical Factors**

The demand for certain imaging and information technology products are seasonal in nature, the sales of these products are usually higher towards the end of the financial year due to festive seasons. On the other hand, the sales of telecommunication products are generally in tandem with the performance of the economy.

**6. Changes in Estimates**

There were no material changes in the estimates used for the preparation of this interim financial report.

**7. Debt and Equity Securities**

There were no issuances, cancellations, repurchases or resale of debt and equity securities during the current financial period to date as of 30 June 2007.

**8. Dividends Paid**

There were no dividends paid during the financial period under review.

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**9. Segmental Reporting (Analysis by geographical location of the Group Results)**

	<b>Current Year Quarter Ended 30 June 2007 RM'000 (Unaudited)</b>	<b>Corresponding Quarter Ended 30 June 2006 RM'000 (Unaudited)</b>	<b>Current Year To Date 30 June 2007 RM'000 (Unaudited)</b>	<b>Corresponding Period Ended 30 June 2006 RM'000 (Unaudited)</b>
<b>SEGMENT REVENUE</b>				
Malaysia	111,800	123,288	214,934	230,609
Singapore	2,979	6,045	6,423	10,446
Bangladesh	24,166	-	101,394	-
	138,945	129,333	322,751	241,055
Inter-segment sales	(35)	(59)	(55)	(106)
<b>TOTAL</b>	<b>138,910</b>	<b>129,274</b>	<b>322,696</b>	<b>240,949</b>
<b>SEGMENT RESULTS</b>				
Malaysia	1,183	576	2,199	925
Singapore	(1)	64	(53)	148
Bangladesh	(104)	-	413	-
	1,078	640	2,559	1,073

**10. Revaluation of Property and Equipment**

The valuations of property and equipment have been brought forward without amendment from the financial statements for the financial year ended 31 December 2006.

**11. Contingent Liabilities and Contingent Assets**

The Company had given corporate guarantees amounting to approximately RM27 million to secure banking facilities granted to its subsidiaries, Compugates Sdn. Bhd. and Compugates Marketing Sdn. Bhd.

There were no contingent assets as of the end of the financial period to date.

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**12. Significant Related Party Transactions**

The recurrent related party transactions (“RRPT”) involved the sales and purchases of prepaid cards. The RRPT had been entered into in the ordinary course of business and have been established under terms that were mutually agreed between the parties.

Transaction parties	Nature of transaction	Current Year Quarter Ended 30 June 2007 RM'000 (Unaudited)	Corresponding Quarter Ended 30 June 2006 RM'000 (Unaudited)	Current Year To Date 30 June 2007 RM'000 (Unaudited)	Corresponding Period Ended 30 June 2006 RM'000 (Unaudited)
1 Beausoft Sdn. Bhd.	Sales of prepaid cards	5,957	13,201	8,245	20,706
2 Southall Sdn. Bhd.	Sales of prepaid cards	5,106	-	10,614	268
3 Southall Sdn. Bhd.	Purchases of prepaid cards	-	7	-	775

**13. Effect of Changes in the Composition of the Group**

There were no changes in the composition of the Group during the financial period ended 30 June 2007.

**14. Significant Events Subsequent to the End of the Financial Period**

There were no significant events subsequent to the end of the financial period to date except as follows:-

- a) corporate proposals announced, as disclosed in Note 23 to the financial statements; and
- b) Compugates International Limited (“CIL”), a 51%-owned subsidiary of Compugates International Sdn. Bhd., which is in turn a wholly-owned subsidiary of Compugates Holdings Berhad, had on 30 July 2007 signed a Memorandum Of Understanding with Pt. Excelcomindo Pratama (“XL”) to set out a framework for collaboration between CIL and XL (“the Parties”) to jointly develop a comprehensive strategy for creating a new distribution network to sell XL Prepaid Products (Starter Pack & Reload) through specific market opportunity in non traditional channel. The Parties are willing to enter into a discussion and collaboration in relation to the intention to distribute XL’s Products through XL’s distribution line.

**15. Capital Commitment**

The Group has no capital commitment as of 30 June 2007.

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**16. Review of Performance**

The Group registered a revenue of approximately RM138.9 million for the quarter ended 30 June 2007, which was higher by approximately RM9.6 million as compared to the preceding corresponding quarter ended 30 June 2006 of approximately RM129.3 million. The higher revenue was partly due to the contribution from a new subsidiary in Bangladesh, which commenced its business operations in the current year.

The Group incurred a gross profit of approximately RM1.8 million in the current quarter as compared to a gross loss of approximately RM1.5 million in the preceding corresponding quarter. This was partly due to the contribution from the Bangladesh subsidiary as well as the improved selling prices of some of the Group's products in the current quarter. In the corresponding quarter last year, certain products of the Group were sold at lower selling prices in order for the Group to maintain market share. This has been compensated by a higher rebate and sales incentives received from the suppliers.

During the current quarter, the Group recorded a profit before taxation ("PBT") of approximately RM1.5 million as compared to the preceding corresponding quarter of approximately RM1.1 million mainly due to savings on operating cost.

**17. Comment on Material Changes in the Profit Before Taxation for the Quarter Reported on as Compared With The Immediate Preceding Quarter**

The Group registered a revenue of approximately RM138.9 million for the quarter ended 30 June 2007, which was 24% lower than the previous quarter ended 31 March 2007 of approximately RM183.8 million. The lower revenue was mainly due to lower sales contribution from the Bangladesh subsidiary.

The Group achieved a PBT of approximately RM1.5 million in the current quarter which was 25% lower than the previous quarter PBT of approximately RM2.0 million mainly due to the lower revenue as mentioned above.

**18. Current Year Prospect**

The Board is of the view that, barring unforeseen circumstances, the Group's business prospects for the remaining quarters of this year will remain challenging for local operations whilst it will be encouraging for the overseas operations.

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**19. Profit Forecast or Profit Guarantee**

The disclosure requirements for explanatory notes for the variance of actual profit and forecast profit and for the shortfall in profit guarantee are not applicable.

**20. Income Tax Expense**

	<b>Current Year Quarter Ended 30 June 2007 RM'000 (Unaudited)</b>	<b>Corresponding Quarter Ended 30 June 2006 RM'000 (Unaudited)</b>	<b>Current Year To Date 30 June 2007 RM'000 (Unaudited)</b>	<b>Corresponding Period Ended 30 June 2006 RM'000 (Unaudited)</b>
Current taxation	441	498	995	677

The Group's effective tax rate for the current quarter and current year to date approximates the statutory tax rate.

The Group's corresponding quarter and period ended 30 June 2006's effective tax rate is higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes, and losses of the Company and certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

**21. Unquoted Investments and/or Properties**

There were no purchases or disposals of unquoted investments and/or properties in the quarter ended 30 June 2007.

**22. Quoted Investments**

There were no purchases or disposals of quoted investments in the quarter ended 30 June 2007.

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**23. Status Of Corporate Proposals**

Save as disclosed below, there were no corporate proposals announced but not completed, being not earlier than 7 days from the date of this announcement:-

- a) On 25 June 2007, the Company has proposed to undertake the following:-
  - i) a share split exercise whereby one (1) ordinary share of RM1.00 each in Compugates Holdings Berhad ("CHB") will be divided into ten (10) new ordinary shares of RM0.10 each ("Sub-Divided Shares") ("Proposed Share Split"); and
  - ii) amendments to the Memorandum and Articles of Association of the Company ("Proposed M&A Amendments") to facilitate the Proposed Share Split and will encompass amendments necessary to allow the following to be effected:-
    - (a) the subdivision of the par value of the existing ordinary shares in CHB into RM0.10 each; and
    - (b) the authorised share capital of the Company to be altered from 350,000,000 ordinary shares of RM1.00 each to 3,500,000,000 Sub-Divided Shares.
- b) On 27 July 2007, the Company announced that the Bursa Securities had, vide its letter dated 25 July 2007, approved the Proposed Share Split.
- c) On 6 August 2007, the Company announced that the Securities Commission had, vide its letter dated 3 August 2007, approved the Proposed Share Split.
- d) On 9 August 2007, the Company announced that an Extraordinary General Meeting of the Company will be held on 5 September 2007 for the purpose of considering and if though fit, passing the resolutions so as to give effect to the Proposed Share Split and Proposed M&A Amendments.

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**24. Status of Utilisation of Proceeds**

The proceeds of RM25 million raised by the Company from its Restricted Issue have been utilised as follows:

<b>Purpose</b>	<b>Proposed Utilisation RM'000</b>	<b>Utilisation As At 15 August 2007 RM'000</b>	<b>Intended Timeframe For Utilisation</b>	<b>Deviation RM'000</b>	<b>%</b>	<b>Explanations</b>
Repayment of bank borrowings	6,500	6,500	Within one year from the date of completion of the Restricted Issue	-	-	Bank borrowings fully repaid. Progressive utilisation.
Working capital	18,500	18,250		250	1.3	
	<u>25,000</u>	<u>24,750</u>		<u>250</u>	<u>1.0</u>	

As at the date of this report, the balance of unutilised proceeds of RM250,000 from the Restricted Issue has been retained as short term deposits pending utilisation.

**25. Borrowings and Debt Securities**

The Group's borrowings are as follows:

	<b>As at 30 June 2007 RM'000</b>
Short term borrowing – secured - hire purchase	<u>64</u>
Long term borrowing – secured - hire purchase	<u>210</u>

**26. Off Balance Sheet Financial Instruments**

There were no off balance sheet financial instruments entered into by the Group as at the date of this announcement.

**27. Material Litigation**

The Group is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending or threatened against the Group which might materially and adversely affect the financial position or business of the Group.



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**28. Dividend**

The Board of Directors does not recommend any dividend for the period ended 30 June 2007.

**29. Earnings per Share**

**a) Basic**

The earnings per share is calculated by dividing the Group's profit attributable to equity holders of the parent for the financial period over the number of ordinary shares in issue during the financial period as follows:-

	<b>Current Year Quarter Ended 30 June 2007 (Unaudited)</b>	<b>Corresponding Quarter Ended 30 June 2006 (Unaudited)</b>	<b>Current Year To Date 30 June 2007 (Unaudited)</b>	<b>Corresponding Period Ended 30 June 2006 (Unaudited)</b>
Profit attributable to equity holders of parent (RM'000)	741	640	1,923	1,073
Number of ordinary shares in issue ('000)	213,429	120,429	213,429	120,429
Basic earnings per share (sen)	0.35	0.53	0.90	0.89

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**29. Earnings per Share (Cont'd)**

**b) Diluted**

The diluted earnings per share is calculated by dividing the Group's profit attributable to equity holders of the parent for the financial period over the assumed number of ordinary shares in issue during the financial period as follows:-

	<b>Current Year Quarter Ended 30 June 2007 (Unaudited)</b>	<b>Corresponding Quarter Ended 30 June 2006 (Unaudited)</b>	<b>Current Year To Date 30 June 2007 (Unaudited)</b>	<b>Corresponding Period Ended 30 June 2006 (Unaudited)</b>
Profit attributable to equity holders of parent (RM'000)	741	640	1,923	1,073
Number of ordinary shares in issue ('000)	213,429	120,429	213,429	120,429
Effects of dilution ('000)	- *	93,000	- *	93,000
Adjusted number of ordinary shares in issue ('000)	213,429	213,429	213,429	213,429
Diluted earnings per share (sen)	N/A	0.30	N/A	0.50

*Notes:-*

\* - ICPS has been fully converted during the previous financial year.

**30. Disclosure In Relation To Any Agreement, Arrangement, Joint Venture Or Collaboration For The Purpose Of Bidding For Or Securing A Project Or Contract**

There were no any new agreement, arrangement, joint venture and major contracts entered by the Group during the quarter ended 30 June 2007.

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**31. Authorisation**

This interim financial report for the financial period ended 30 June 2007 has been seen and approved by the Board of Directors of Compugates Holdings Berhad on 15 August 2007 for release to the Bursa Securities.

By order of the Board  
**Mah Li Chen**  
**Lee Wai Kim**  
Company Secretaries

Dated : 15 August 2007